

Memorandum

To: CHAIR AND COMMISSIONERS

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Information Item

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Subject: **FY 2007-08 2nd QUARTER FINANCE REPORT**

Attached is the Department of Transportation's 2nd Quarter Finance Report for FY 2007-08. There are no substantive changes from the version previously transmitted to the Commission's Executive Committee.

Attachment



Department of Transportation Quarterly Finance Report

Second Quarter 2007-08

**California Department of Transportation
 Quarterly Finance Report
 Schedule of Reports**

Fiscal Year	Quarterly Report	Activity	Date
2007-08	2006-07 Q4	Close of Quarter	6/30/07
		Quarterly Report to Commission Staff	8/31/07
		Presented to Commission	9/19/07
	2007-08 Q1	Close of Quarter	9/30/07
		Quarterly Report to Commission Staff	11/15/07
		Presented to Commission	12/12/07
	2007-08 Q2	Close of Quarter	12/31/07
		Quarterly Report to Commission Staff	2/15/08
		Presented to Commission	3/12/08
	2007-08 Q3	Close of Quarter	3/31/08
		Quarterly Report to Commission Staff	5/15/08
		Presented to Commission	6/25/08
2008-09	2007-08 Q4	Close of Quarter	6/30/08
		Quarterly Report to Commission Staff	9/1/08
		Presented to Commission	9/24/08

Department of Transportation Quarterly Finance Report

Second Quarter 2007-08

Executive Summary

The purpose of this quarterly finance report is to enable the California Transportation Commission (Commission) and the Department of Transportation (Department) to evaluate transportation funding policy, allocation capacity, and forecast methodology in order to ensure the efficient and prudent management of transportation resources.

Second Quarter Forecasts vs. Actuals

The second quarter cash balance for the State Highway Account (SHA) ended \$267 million (49 percent) below forecast. This is due in large part to timing differences and adjustments to the Transportation Revolving Account (TRA). Significantly, these adjustments account for about \$140 million of the difference between forecast and actual. Without these adjustments, the SHA would have been about \$127 million (23 percent) below forecast. While the balance may self-correct to some extent during the third quarter, the situation warrants close monitoring of the SHA to ensure that the current year allocation capacity can be maintained.

The Public Transportation Account (PTA) second quarter cash balance ended \$32 million (32 percent) higher than forecast due mainly to lower expenditures through the end of the second quarter. The Transportation Investment Fund (TIF) and the Transportation Deferred Investment Fund (TDIF) ended the quarter above forecast. The Traffic Congestion Relief Fund (TCRF) ended the second quarter \$119 million (15 percent) lower than forecast due mainly to higher second quarter expenditures.

December 2007				
Actuals vs. Forecast by Fund				
(\$ millions)				
Fund	Forecast	Actuals	Difference	
SHA	\$550	\$283	-\$267	-49%
PTA	\$100	\$132	\$32	32%
TCRF	\$770	\$651	-\$119	-15%
TIF	\$210	\$264	\$54	26%
TDIF	\$350	\$427	\$77	22%

Capital Allocations vs. Capacity

2007-08 Capital Allocations vs. Capacity (\$ millions)					
	SHOPP	STIP	TCRP	BONDS	TOTAL
Total Allocation Capacity	\$1,850	\$1,092	\$303	\$1,970	\$5,215
Total Allocations (through Dec.)	915	945	290	593	\$2,743
Total Remaining Capacity	\$935	\$147	\$13	\$1,377	\$2,472

The current 2007-08 total allocation capacity is \$5.2 billion and includes \$100 million tribal gaming revenue. The Commission allocated a total of \$2.7 billion toward 422 projects through the second quarter of fiscal year 2007-08.

- There was \$915 million of State Highway Operations and Protection Program (SHOPP) funds allocated, and \$935 million allocation capacity available at the end of the second quarter.
- There was \$945 million of State Transportation Improvement Program (STIP) allocated, and \$147 million of allocation capacity remaining at the end of the second quarter.
- TCRP allocations totaled \$290 million, leaving \$13 million of allocation capacity remaining for the 2007-08 fiscal year.
- Proposition 1B bond allocations totaled \$593 million with a remaining allocation capacity of \$1.4 billion through the end of the second quarter.

Outlook for Funding & Allocations

The Proposed 2008-09 Governor's Budget includes a fully funded Proposition 42 transfer, an increase of Proposition 1B bond appropriations, as well as a partial Pre-Proposition 42 repayment of \$100 million. However, lower revenue projections and the declaration of a fiscal emergency still pose risks to future STIP funding.

Despite the low December 2007 balances, the SHA funding outlook has not changed substantially since the first quarter report. The level of future federal funding remains uncertain, and fuel consumption continues to be sluggish. GARVEE financing will allow the advancement of high priority SHOPP projects in 2008-09.

Lower projected PTA revenues and increased expenditures in the Proposed 2008-09 Governor's Budget will impact future PTA STIP capacity if they materialize. Furthermore, if the Proposition 42 transfer is suspended, both the PTA and TIF will be immediately and severely impacted resulting in little or no state funded STIP capacity over the next three years.

Recommendations

The Department recommends maintaining the current 2007-08 allocation capacity of \$5.2 billion. It will also continue to monitor the federal funding outlook and report back on any other developments that may impact transportation funding policy or allocation capacity.

The low second quarter SHA cash balance has resulted in the need to closely monitor the SHA to ensure current and future allocation capacities can be maintained.

Cash Forecast

Methodology and Assumptions

The cash forecasts are used by the Department to estimate and monitor the cash balance of transportation funds to determine the level of allocations that can be authorized, and to prepare for low or high cash periods.

Cash forecasts are prepared for the SHA, PTA, TCRF, TIF, and TDIF. Actual cash balances are compared to the forecasts and variances are identified and reported to management and the Commission. If necessary, adjustments are made to capital allocation levels or forecast methodology.

The 2007-08 cash forecasts and allocation capacities are based on the following assumptions:

- Expenditures for state operations and local assistance are based on the 2007-08 Budget Act.
- Capital outlay expenditures are based on actual and projected Commission allocations, using the existing expenditure model that is based on a seasonal construction pattern.
- Proposition 42 transfers occur during the forecast period. The current forecast methodology assumes transfers occur one month after the close of the previous quarter except in the fourth quarter, which is assumed to occur in June.
- Annual Pre-Proposition 42 loan repayments from Tribal Gaming compacts are included and are repaid in annual installments of \$100M, according to Government Code (GC) Section 63048.65(e).
- Spillover revenues are transferred to the PTA during the forecast period as statutorily prescribed. The distribution of spillover revenues is based on the 2007-08 Budget Act.
- Forecast includes the 2007-08 Budget Act authorized expenditure of \$409 million to the General Fund from the PTA.
- Federal receipts, of approximately at \$2.8 billion are from the 2008 Fund Estimate and based on two years of actual receipts.
- Federal authority for Emergency relief was included at \$307 million and represents additional capacity since SHA funds had already been expended on emergency repair projects in prior years.
- Capital outlay support (COS) expenditures are based on historical spending. STIP COS and STIP right-of-way are funded from the TIF.
- The PTA 2007-08 forecast was revised to include SB 717, beginning with the Second Quarter Financial Report. (Note: This resulted in lowering of the PTA 2007-08 allocation capacity from \$600M to \$475M.)

Second Quarter Fund Summaries

Below are the summaries of the second quarter of 2007-08 fiscal year cash forecast results by fund.

State Highway Account

The SHA ended the second quarter at \$283 million, \$267 million (49 percent) below forecast. The difference is due to several factors, including increased expenditures, and higher than forecast TRA and miscellaneous adjustments.

Significantly, these adjustments account for about \$140 million of the difference between forecast and actual. Without these adjustments, the SHA would have been about \$127 million (23 percent) below forecast. While the balance may self-correct to some extent during the third quarter, the situation warrants close monitoring of the SHA to ensure that the current year allocation capacity can be maintained.

Summary of YTD Reconciling Items	
Revenues	93
Transfers	-18
Expenditures	-206
TRA Due to Other Funds	-93
Misc. Adjustments (DEC)	-47
Other Misc.	4
Total Difference	-\$267

Year-to-date, SHA revenues are \$2.9 billion, \$93 million (3 percent) above forecast. Revenues totaled \$1.4 billion during the quarter, \$60 million (4 percent) below forecast.

- Year-to-date federal receipts were \$1.5 billion, \$107 million (8 percent) above forecast mainly due to the receipt of \$116 million in federal reimbursements from the conversion of federal August Redistribution authority in the first quarter. Federal receipts for the quarter were \$629 million, or \$38 million (6 percent) below forecast.
- Year-to-date Highway Users Tax Account (HUTA) receipts were \$900 million, \$6 million lower than forecast. For the quarter, HUTA receipts total \$532 million, or \$20 million (4 percent) below forecast.
- Year-to-date weight fee receipts were on target at \$466 million, \$1 million below forecast. Weight fee receipts for the quarter were \$230 million, \$7 million (3 percent) above forecast.
- Year-to-date miscellaneous revenues totaled \$59 million, \$8 million (12 percent) below forecast. For the quarter miscellaneous revenues, including Surplus Money Investment Fund (SMIF) interest, state property rentals, sale of documents and licenses/permits receipts were \$23 million, \$8 million (26 percent) below forecast.

Year-to-date net transfers totaled a positive \$14 million, \$18 million below forecast. For the quarter, net transfers were a negative \$53 million, \$29 million above forecast.

- The first and second quarter TIF transfers of \$64 million each (\$128 million total) for STIP COS occurred in September 2007 and December 2007 as forecast.
- The Non-Article XIX transfer from SHA to PTA for \$87 million occurred in October 2007. This transfer was \$7 million (9 percent) above forecast.
- Year-to-date miscellaneous transfers out totaled \$27 million, \$11 million below forecast. For the quarter, miscellaneous transfers totaled \$31 million, \$22 million above forecast. This difference includes \$9 million in transfers to the General Fund, per the 2006-07 Budget Act. The remaining transfers include \$10 million for Pro-Rata and \$8 million to Victims Compensation and Government Claims Board. Pro Rata is the General Fund recovery of indirect costs incurred by central service agencies from special funds.

Year-to-date SHA expenditures totaled \$3.3 billion, \$206 million (7 percent) above forecast. The increase in expenditures occurred in the first quarter and was discussed in the First Quarter Quarterly Finance Report. Overall, expenditures are on target with the forecast for the second quarter. Total SHA expenditures were \$1.5 billion for the quarter, or \$7 million lower than forecast.

- Year-to-date state operations totaled \$1.5 billion, \$38 million (3 percent) below forecast. For the quarter, state operations expenditures were \$804 million, or \$32 million (4 percent) above forecast.
- Year-to-date capital outlay and local assistance expenditures totaled \$1.7 billion, \$177 million (12 percent) above forecast. Capital outlay and local assistance expenditures for the quarter totaled \$677 million for the quarter, \$32 million (5 percent) below forecast.
- Year-to-date Non-Departmental expenditures totaled \$53 million, \$9 million (15 percent) below forecast. Non-Departmental expenditures for the quarter totaled \$21 million, \$6 million (23 percent) below forecast.

Net adjustments are a negative \$51 million, \$47 million above forecast. These adjustments are used to determine the actual ending cash balance. As part of the forecast development process, it is expected that the majority of adjustments will net out monthly. However, there is \$47 million at the end of the quarter that has not been cleared. This will most likely be cleared in January 2008.

Net adjustments include Plans of Financial Adjustment (PFA), and the net adjustment of Transportation Revolving Account (TRA) due to other funds, net reimbursements and items in transit. PFA transfers occur regularly throughout the year as the TRA makes payments on behalf of transportation funds and requires transfers to maintain a reserve balance. Net

reimbursements represent the timing difference between expenditures for work done for others and the actual receipt of those reimbursements by the Department. Items in transit represent a difference in timing for the recording of expenditures at the Department and the actual payment for expenditures by the State Controller's Office.

- The second quarter ending cash balance includes \$105 million in outstanding loans to the General Fund. Per GC Section 16310, loans may be made to the General Fund from other funds to cover General Fund expenditures. These loans are not part of the forecast since the amounts and timing can vary with the needs of the General Fund, and these amounts must be paid to the originating funds when needed.
- The TRA adjustment were higher than forecast for the quarter. Historically, \$120 million per month is returned back to funds that advance to the TRA. However, for the second quarter, the monthly adjustment average has been approximately \$187 million returned to other funds. For the quarter, total TRA adjustments were \$92 million above forecast.

Public Transportation Account

The 2007-08 PTA forecast was revised based on SB 717. The PTA ending cash balance for the second quarter was \$132 million, \$32 million (32 percent) above the revised forecast. The higher cash balance is due to overall lower expenditures through the end of the second quarter.

Year-to-date, PTA revenues were \$283 million, \$2 million above forecast. PTA revenues for the second quarter totaled \$99 million, \$1 million below forecast.

- Revenue from diesel sales tax for the second quarter was \$76 million, \$2 million above forecast.
- Proposition 111 gasoline sales tax revenues (derived from a sales tax on 9 cents of the excise tax) were \$16 million, \$1 million below forecast.
- SMIF interest during the second quarter was \$6 million, \$2 million below forecast.

All PTA transfers posted during the second quarter of 2007-08. PTA transfers totaled \$126 million, \$4 million below forecast.

- The Non-Article XIX and Section 194 transfers from the SHA to the PTA totaled \$93 million, \$7 million above the forecast amount.
- The quarterly TIF transfer was \$33 million, \$11 million below forecast.

Year-to-date PTA expenditures were \$832 million, \$56 million below forecast. PTA expenditures for the second quarter totaled \$202 million, \$7 million (3 percent) below forecast.

- State operations expenditures were \$14 million, \$26 million below forecast. The difference is due to lower than forecast Mass Transit, Rail Transit, and Statewide Planning expenditures.
- Capital outlay and local assistance expenditures totaled \$72 million, \$24 million above forecast. This difference is due to AB 3090 expenditures that were forecast to occur throughout the fiscal year, but instead the majority of those expenditures occurred during the second quarter.
- Non-departmental expenditures totaled \$115 million, \$6 million below forecast, as a result of pending Regional Center Transportation expenditures.
 - Regional Center Transportation expenditures have been forecast to begin in February 2008. But, no claims for payment have been received. Until the Department of Developmental Services submits claims for such expenditures, those expenditures will not post to the PTA.
 - The Department of Education's Home-to-School expenditure occurred as forecast.

Total net adjustments to the PTA during the second quarter totaled \$9 million. Those net adjustments include PFA's, reimbursements and items in transit.

Traffic Congestion Relief Fund

The TCRF ending cash balance for the second quarter was \$651 million, \$119 million (15 percent) below forecast.

Year-to-date transfers totaled \$170 million, \$39 million (19 percent) below forecast. For the second quarter the TIF transfer was \$170 million, \$19 million (12 percent) higher than forecast.

- The TDIF transfer of \$83 million, per the Proposition 1A repayment plan, did not occur as forecast.
 - This transfer was forecast to occur in a lump sum in December 2007. The Department of Finance (DOF) has since indicated that the transfer will occur quarterly. However, due to a delay in processing the transfer, the DOF is issuing an Executive Order to transfer the first two quarters payment, for \$41 million, early in the third quarter. The remaining balance should be transferred in equal installments at the end of each remaining quarter.
- The Pre-Proposition 42 loan repayment of \$25 million to the SHA did not occur as forecast. This transfer is not initiated by the Department, but is made at the discretion of the DOF. Over the last two years, these payments have been made in June by Executive Order. The transfer

should have been forecast for June. Future forecasts will reflect this change.

Year-to-date expenditures totaled \$373 million, \$89 million (31 percent) above forecast. The gap has narrowed from the first quarter. The majority of the difference was due to capital and local expenditures. Total TCRF expenditures were \$101 million for the quarter, or \$32 million lower than forecast.

- State operations expenditures were \$9 million, \$3 million (51 percent) above forecast.
- Capital outlay and local assistance expenditures were \$93 million, \$35 million (27 percent) below forecast.

Total net adjustments for the quarter were a negative \$79 million due to PFA activity. Net adjustments include PFA's, net reimbursements and items in transit.

Transportation Investment Fund

The TIF ending cash balance for the second quarter was \$264 million, \$54 million (26 percent) above forecast. The majority of this difference is due to a first quarter carryover of \$62 million above forecast. As discussed in the First Quarter Finance Report, this difference was due to low expenditures and higher net adjustments.

Year-to-date revenues totaled \$335 million, \$6 million (2 percent) below forecast. The second quarter TIF revenues were \$335 million, \$6 million (2 percent) lower than forecast. Historically, the first quarter transfer of TIF revenue has occurred very early in the second quarter, so no revenue was forecast for the first quarter.

Year-to-date transfers out totaled \$331 million, \$8 million (2 percent) above forecast. For the second quarter, transfers out totaled \$267 million, \$8 million (3 percent) above forecast.

- The first and second quarter TIF transfers to the SHA of \$64 million each (\$128 million in total) occurred in September 2007 and December 2007 as forecast.
- Other transfers totaled \$203 million, \$8 million (4 percent) above forecast. A transfer of \$33 million was made to the PTA and \$170 million to the TCRF, per the Proposition 42 formula.

Year-to-date expenditures totaled \$170 million, \$38 million (18 percent) below forecast. Capital outlay and local assistance expenditures for the second quarter totaled \$85 million, \$13 million (13 percent) below forecast.

Total net adjustments for the quarter were a negative \$2 million due to PFA activity.

Transportation Deferred Investment Fund

The TDIF cash balance ended the quarter at \$427 million, \$77 million (22 percent) above forecast.

Year-to-date, TDIF revenues are \$12 million, \$71 million (86 percent) below forecast. For the second quarter, TDIF revenues were \$6 million, \$77 million (93 percent) below forecast. This difference is due to the \$83 million in Proposition 42 loan repayments forecast to occur during the second quarter but has not yet been received. The DOF is processing an Executive Order and the transfer of \$41 million is expected to occur in the third quarter.

Since the Proposition 42 loan repayment did not occur, outgoing transfers to the TCRF and the PTA totaling \$83 million did not occur as forecast.

Year-to-date expenditures totaled \$39 million, \$60 million (61 percent) below forecast. This has no net impact to TDIF though because it was a one-time funding.

- Capital outlay and local assistance expenditures totaled \$18 million, \$28 million (61 percent) below forecast.

Total net adjustments were a negative \$15 million due to PFA activity.

Federal Emergency Projects

Since October 1, 2007, the Federal Highway Administration added two new disaster declarations to the list: Newhall Tunnel Fire (CA08-2) and the Southern California Wildfires (CA08-03). The Department received an Emergency Relief (ER) distribution of \$1 million for the Southern California Wildfires, but no other ER allocations for the remaining disasters. Approximately \$393 million in total federal funded needs remain outstanding for the California disasters. The chart below details current ER funding for all California federally declared active disasters, and the remaining balance that still needs to be distributed to California as of December 31, 2007. In the interim, the SHA has been used to fund these system repairs.

Emergency Federal Funding for Federal Needs Only (\$ millions)					
Disaster	Emergency Relief Needs			Federal Emergency Distributions	Total Remaining Needs
	State	Local	Total		
Devil's Slide CA 83-1	\$386	\$0	\$386	\$242	\$144
Dec. 2004 Storm CA05-1	256	144	400	245	\$155
Dec. 2005 Storm CA06-1	356	61	417	392	\$25
MacArthur Maze Fire CA07-1	26	0	26	24	\$2
Newhall Tunnel Fire CA08-2	22	0	22	0	\$22
So. California Wildfires CA08-3	28	17	45	1	\$44
Total	\$1,074	\$222	\$1,296	\$903	\$393

Future federal emergency relief of this type can only be used to fund emergency projects and do not represent new capacity, except to the extent that SHA funds have already been advanced for emergency projects.

2007-08 Allocation Capacity

The total revised 2007-08 allocation capacity is \$5.2 billion. This capacity includes \$100 million of Tribal Gaming compact revenues expected to be collected and transferred to the SHA during the fiscal year.

2007-08 Allocation Capacity By Fund and Program (\$ millions)					
Fund	SHOPP	STIP	TCRP	Other (Bonds)	Total
SHA	\$1,850	\$65	\$0	\$0	\$1,915
PTA	0	475	0	0	\$475
TIF	0	520	0	0	\$520
TDIF	0	32	0	0	\$32
TCRF	0	0	303	0	\$303
Bonds	382	664	0	924	\$1,970
Total Capacity	\$2,232	\$1,756	\$303	\$924	\$5,215

This allocation capacity is based on:

- The PTA allocation capacity reflects SB 717. SB 717, directs 75 percent of PTA Proposition 42 resources to the State Transit Assistance (STA) with only 25 percent going to the PTA beginning in 2008-09.
- The PTA allocation capacity includes the impact of \$1.3 billion of redirected PTA resources, the future distribution of spillover revenues and funding of the Regional Center Transportation Program as authorized in the 2007-08 Budget Act.
- Pre-Proposition 42 loan repayments are forecast as annual installments of \$100 million from Tribal Gaming compact revenues, pursuant to GC Section 63048.65(e).
- The annual TCRF allocation capacity is based on a dollar-for-dollar ratio of actual revenues received, as opposed to the cash flow basis used in the SHA and PTA to cover current year expenditures.

Capital Allocations

Second Quarter Summary

Through the second quarter of 2007-08, the Commission allocated \$2.7 billion toward 422 projects, including the Proposition 1B bonds and Resolution G-02-12 project adjustments. The total of \$2.7 billion allocated was nearly 52 percent of the \$5.2 billion total allocation capacity, leaving approximately \$2.5 billion remaining to be allocated in 2007-08.

Due to changes in STIP funding, capacity for the STIP was reduced significantly from the levels recommended at the start of the fiscal year. Because of this change, the total value of STIP projects for the current year exceeded the available allocation capacity. At the November 27, 2007 CTC special meeting, the Department presented Allocation Plan Guiding Principles to address the current-year shortfall of Allocation Capacity. At the following meeting on December 12, 2007, solutions for the shortfall were discussed in detail. The solution for the current year includes advancement of \$180 million in Transportation Facilities Account (Proposition 1B STIP) funds into the current year, and the funding of certain interregional transit projects with Proposition 1B transit funds. The Department is currently working towards implementation of these solutions. While the allocation plan strategy addresses the current-year shortfall, it does not address future-year projected shortfalls, which should be addressed during the 2008 STIP programming process.

SHOPP

The second quarter SHOPP allocations totaled \$204 million. Allocations to date total \$915 million, 48 percent of the \$1.9 billion capacity. The total number of SHOPP projects allocated to date was 181, including 26 emergency projects, 30 minor projects and 4 supplemental votes.

STIP

The STIP allocations for the second quarter were \$87 million. The total STIP allocations to date were \$945 million, 86 percent of the \$1.1 billion STIP capacity. The total number of STIP projects allocated to date was 193.

TCRP

The TCRP second quarter allocations were \$171 million. To date TCRP allocations totaled \$293 million, 97 percent of the \$303 million of capacity. The total number of TCRP projects allocated to date was 29.

Proposition 1B Bonds

CMIA (6055) – To date there was \$125 million, 21 percent of the \$594 million total CMIA capacity allocated for a total of 5 projects.

Local Seismic (6062) – The entire Local Seismic bond allocation of \$14 million was voted as a lump sum at the July 2007 meeting. There is no remaining allocation capacity for this fund.

SHOPP (6064) – To date, through the second quarter 2007-08, there was \$5 million allocated, 1 percent of the \$382 million capacity, for a total of 2 projects.

STIP (6058) – A total of \$452 million was allocated to date, (35 percent) of the \$664 million capacity, for a total of 12 projects through the second quarter of 2007-08.

2007-08 Allocations					
Final Allocations through December 2007 Vote					
FUNDS	SHOPP	STIP	TCRP	Other Bonds	TOTAL
FUNDS					
State Highway Account (SHA)	\$1,850	\$65	\$0	\$0	\$1,915
Public Transportation Account (PTA)	0	475	0	0	475
Transportation Investment Fund (TIF)	0	520	0	0	520
Transportation Deferred Investment Fund (TDIF)	0	32	0	0	32
Traffic Congestion Relief Fund (TCRF)	0	0	303	0	303
Funds Subtotal	\$1,850	\$1,092	\$303	\$0	\$3,245
BONDS					
CMIA (6055)	\$0	\$0	\$0	\$594	\$594
STIP (6058)	0	664	0	0	664
Intercity Rail (6059)	0	0	0	187	187
Local Seismic (6062)	0	0	0	14	14
Grade Separations (6063)	0	0	0	123	123
SHOPP (6064) ¹	382	0	0	0	382
Highway 99 (6072)	0	0	0	6	6
Bonds Subtotal	\$382	\$664	\$0	\$924	\$1,970
Total Allocation Capacity	\$2,232	\$1,756	\$303	\$924	\$5,215
1st Quarter Allocations					
Total Allocations (1st Qtr)	\$713	\$1,090	\$119	\$139	\$2,060
2nd Quarter Allocations					
State Highway Account (SHA)	\$276	\$5	\$0	\$0	\$281
Public Transportation Account (PTA)	0	0	0	0	0
Transportation Investment Fund (TIF)	0	78	0	0	78
Transportation Deferred Investment Fund (TDIF)	0	0	0	0	0
Traffic Congestion Relief Fund (TCRF)	0	0	173	0	173
CMIA (6055)	0	0	0	0	0
STIP (6058)	0	244	0	0	244
Intercity Rail (6059)	0	0	0	0	0
Local Seismic (6062)	0	0	0	0	0
Grade Separations (6063)	0	0	0	0	0
SHOPP (6064)	2	0	0	0	2
Highway 99 (6072)	0	0	0	0	0
Sub-Total Allocations (2nd Qtr)	\$278	\$327	\$173	\$0	\$778
2nd Quarter Adjustments to Allocations					
State Highway Account (SHA)	-\$72	\$3	\$0	\$0	-\$69
Transportation Investment Fund (TIF)	0	-1	0	0	-1
Transportation Deferred Investment Fund (TDIF)	0	2	0	0	2
Traffic Congestion Relief Fund (TCRF)	0	0	-2	0	-2
CMIA (6055)	0	0	0	0	0
STIP (6058)	0	-25	0	0	-25
SHOPP (6064)	0	0	0	0	0
Total Project Adjustments (2nd Qtr)	-\$72	-\$21	-\$2	\$0	-\$95
Total Net 2nd Quarter Allocations	\$206	\$306	\$171	\$0	\$684
Remaining Allocation Capacity					
State Highway Account (SHA)	\$935	\$19	\$0	\$0	\$954
Public Transportation Account (PTA)	0	3	0	0	3
Transportation Investment Fund (TIF)	0	97	0	0	97
Transportation Deferred Investment Fund (TDIF)	0	29	0	0	29
Traffic Congestion Relief Fund (TCRF)	0	0	13	0	13
CMIA (6055)	0	0	0	469	469
STIP (6058)	0	212	0	0	212
Intercity Rail (6059)	0	0	0	187	187
Local Seismic (6062)	0	0	0	0	0
Grade Separations (6063)	0	0	0	123	123
SHOPP (6064)	378	0	0	0	378
Highway 99 (6072)	0	0	0	6	6
Total Remaining Allocation Capacity	\$1,313	\$360	\$13	\$785	\$2,471

Footnotes:

¹ SHOPP (6064) includes budget authority of \$123M reserved for Local Assistance (Traffic Light Synchronizing).

Outlook for Funding & Allocations

On January 10, 2008, the Governor released his proposed budget for 2008-09. This budget includes a fully funded Proposition 42 transfer of \$1.5 billion, \$3.8 billion in Proposition 1B bond appropriations, as well as partial Pre-Proposition 42 repayment of \$100 million. Although the budget included these resources for transportation, lower revenue projections and the declaration of a fiscal emergency still pose risks to future STIP funding.

SHOPP

State Highway Account. The long-term SHA funding outlook has not changed since the first quarter report. Federal funding remains uncertain since no action has taken place to address the projected deficit of the Federal Highway Trust Fund in 2009. Fuel consumption has continued to be sluggish with little or no growth in fuel tax revenues to the state. The SHA will be receiving \$100 million for SHOPP from a partial TCRF loan repayment funded from Tribal gaming compact revenues. However, as a result of the low second quarter cash balance, the SHA will be monitored to ensure current and future allocation capacity can be maintained.

GARVEE. GARVEE financing will be used beginning in 2008-09 to advance high priority SHOPP projects beyond the current SHA allocation capacity. Up to \$800 million in GARVEE financing that may be used over the next two to three years as projects reach funding status. These GARVEE projects include three pavement preservation and two bridge projects. By using GARVEE financing, the Department will be able to advance these projects at a time when current resources are limited. The debt service on these projects will be funded from future federal resources, but spread over a longer payback period to minimize the annual impact to resources.

STIP

Public Transportation Account. The 2007-08 allocation capacity was revised downward in the first quarter as a result of statutory changes to PTA distribution formulas for spillover and Proposition 42. The 2008-09 proposed budget is projecting slightly lower revenues, as well as increased expenditures to the Department of Developmental Services and the University of California. In order to offset these changes the proposed budget includes a temporary loan from the TCRF to the PTA for \$60 million. If these lower revenues and increased expenditures materialize, future PTA STIP capacity may be reduced.

Transportation Investment Fund. The 2008-09 Proposition 42 transfer is also slightly lower than previously forecast by the Department in May 2007, but the transfer is estimated to be \$1.485 billion. The declaration of a fiscal emergency could still make this transfer subject to suspension. Because of the current STIP cash flow commitments against the TIF and the PTA's current condition, a suspension of Proposition 42 in 2008-09 would have severe and immediate impacts to these funds and future allocations.

TCRP

Traffic Congestion Relief Fund. The TCRF will receive the last statutory transfer of Proposition 42 revenues in 2007-08, but will still be due approximately \$1.5 billion from the General Fund (refer to Appendix G). This total includes Proposition 42 debt of \$660 million, and Pre-Proposition 42 debt of \$879 million.

As authorized by Proposition 1A, the TCRP will be receiving annual loan repayments of approximately \$83 million over eight years toward the Proposition 42 loan balance of \$660 million. As for the Pre-Proposition 42 debt, there is no repayment plan in place to repay the remaining \$879 million. However, per GC Section 63048, the tribal gaming compact revenue has been used to make partial payments of \$100 million per year. Assuming Pre-Proposition 42 debt is repaid from these annual payments, the TCRP will not be fully repaid until 2016-17.

Under this possible repayment schedule, completion of this program will be delayed well past the original anticipated date. The project delays from the delayed repayment will likely result in higher project costs and may jeopardize other project funding sources such as federal funding and local resources.

Recommendations

With respect to transportation funding policy, allocation capacity, and forecast methodology, the Department recommends maintaining the current 2007-08 allocation capacity of \$5.2 billion. It will also continue to monitor the federal funding outlook and report back on any other developments that may impact transportation funding policy or allocation capacity.

The unexpected low second quarter SHA cash balance has resulted in the need to closely monitor the SHA to ensure current and future allocation capacities can be maintained. If low cash balances persist, future SHA allocation capacity reductions may be necessary.

Appendix

Appendix A

2007-08 State Highway Account 24-Month Forecast

Appendix B

2007-08 Public Transportation Account 24-Month Forecast

Appendix C

2007-08 Traffic Congestion Relief Fund 24-Month Forecast

Appendix D

2007-08 Transportation Investment Fund 24-Month Forecast

Appendix E

**2007-08 Transportation Deferred Investment Fund
24-Month Forecast**

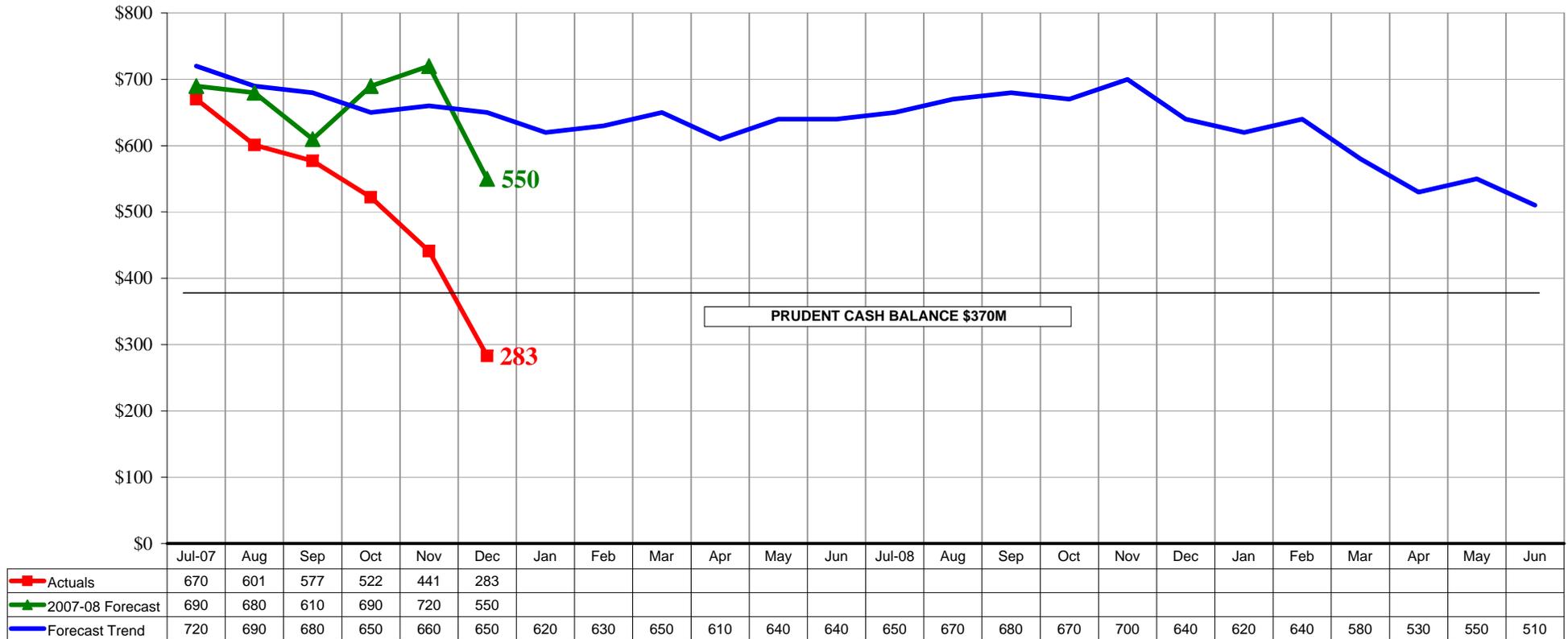
Appendix F

2007-08 State Highway Account Five-Year Forecast

Appendix G

Status of Outstanding Transportation Loans

24-Month State Highway Account (SHA) Cash Forecast (\$ millions)



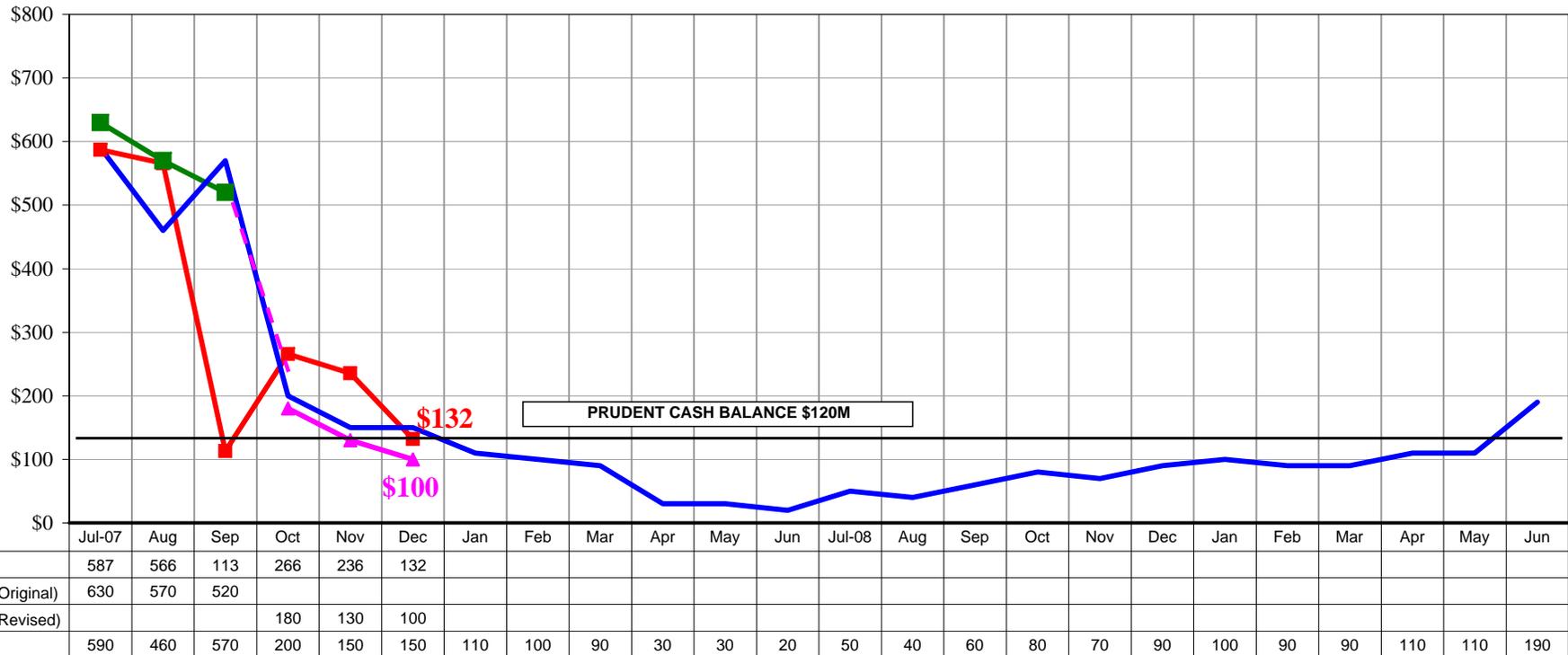
Base FY 2007-08 Forecast Assumptions:

- ▶ Includes \$100 million Tribal Gaming loan repayment.
- ▶ Includes \$256 million transfer from TIF.
- ▶ Forecast trend line is a five-month moving average.

Allocation Assumptions:

- ▶ The current allocation recommendation proposes \$1.915 billion for 2007-08. All remaining years are \$1.750 billion.

Revised 24-Month Public Transportation Account (PTA) Cash Forecast (\$ millions)



Base FY 2007-08 Forecast Assumptions:

- ▶ Based on 2007-08 Budget Act.
- ▶ PTA expenditure to General Fund of \$409 million.
- ▶ Tot

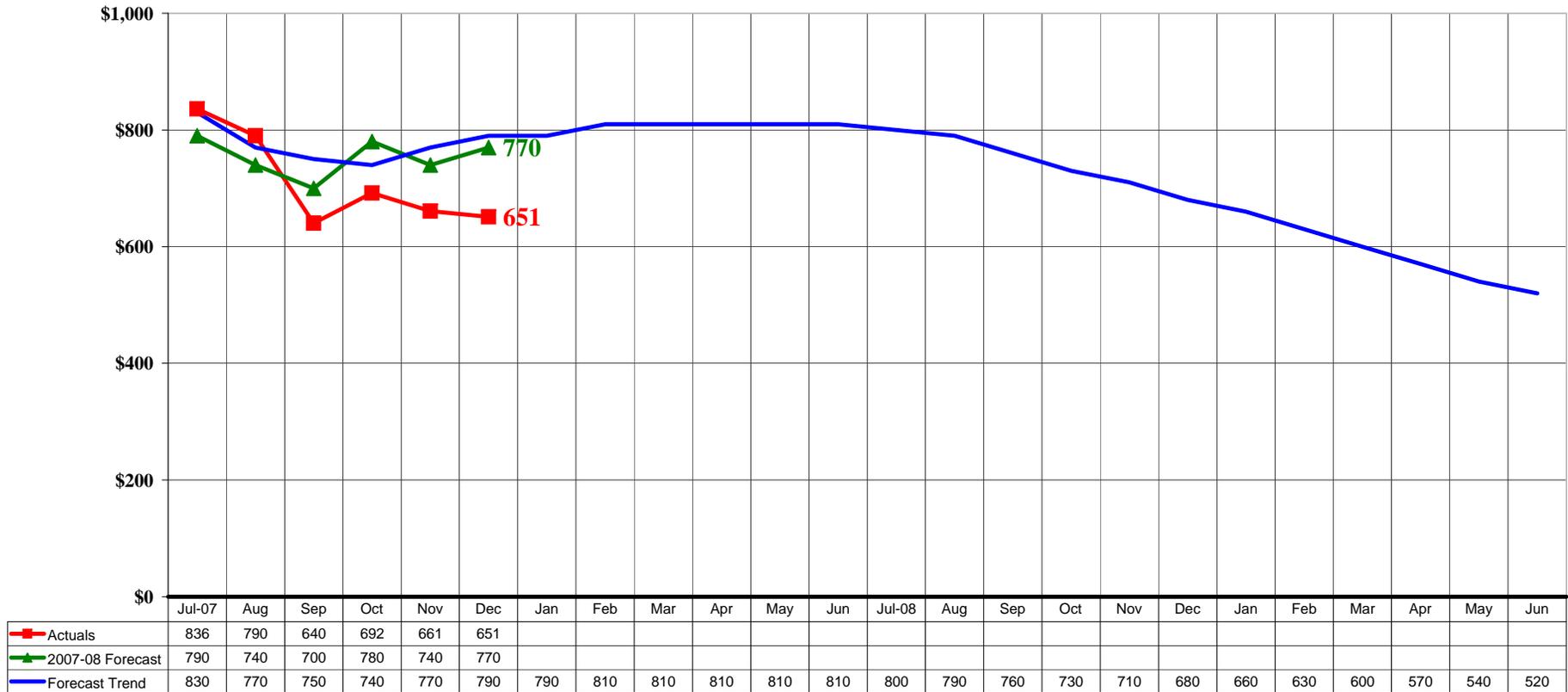
Revised Base FY 2007-08 Forecast Assumptions:

- ▶ Based on 2007-08 Forecast updated to include SB 717.
- ▶ \$409M General Fund expenditure occurred September 2007 instead of June 2008.
- ▶ Includes loan from TCRF in 2008-09.

Allocation Assumptions:

- ▶ The current 2007-08 Allocation Capacity proposes \$475 million for STIP.

24-Month Traffic Congestion Relief Fund (TCRF) Cash Forecast (\$ millions)



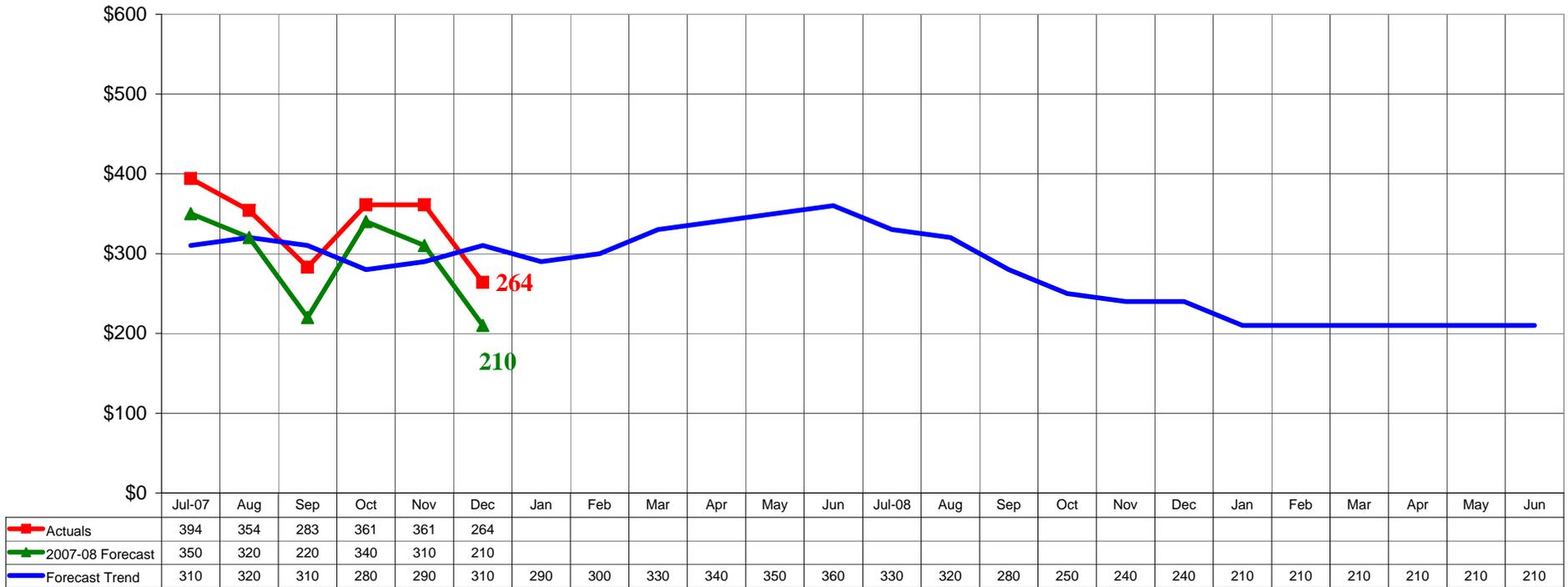
Base FY 2007-08 Forecast Assumptions:

- ▶ Updated project expenditure patterns.
- ▶ Transfer from TIF of \$602 million in FY 2007-08.
- ▶ Transfer from TDIF of \$82 million in FY 2007-08.

Allocation Assumptions:

- ▶ The current 2007-08 Allocation Capacity proposes \$1.0 billion for the TCRP.

24-Month Transportation Investment Fund (TIF) Cash Forecast (\$ millions)



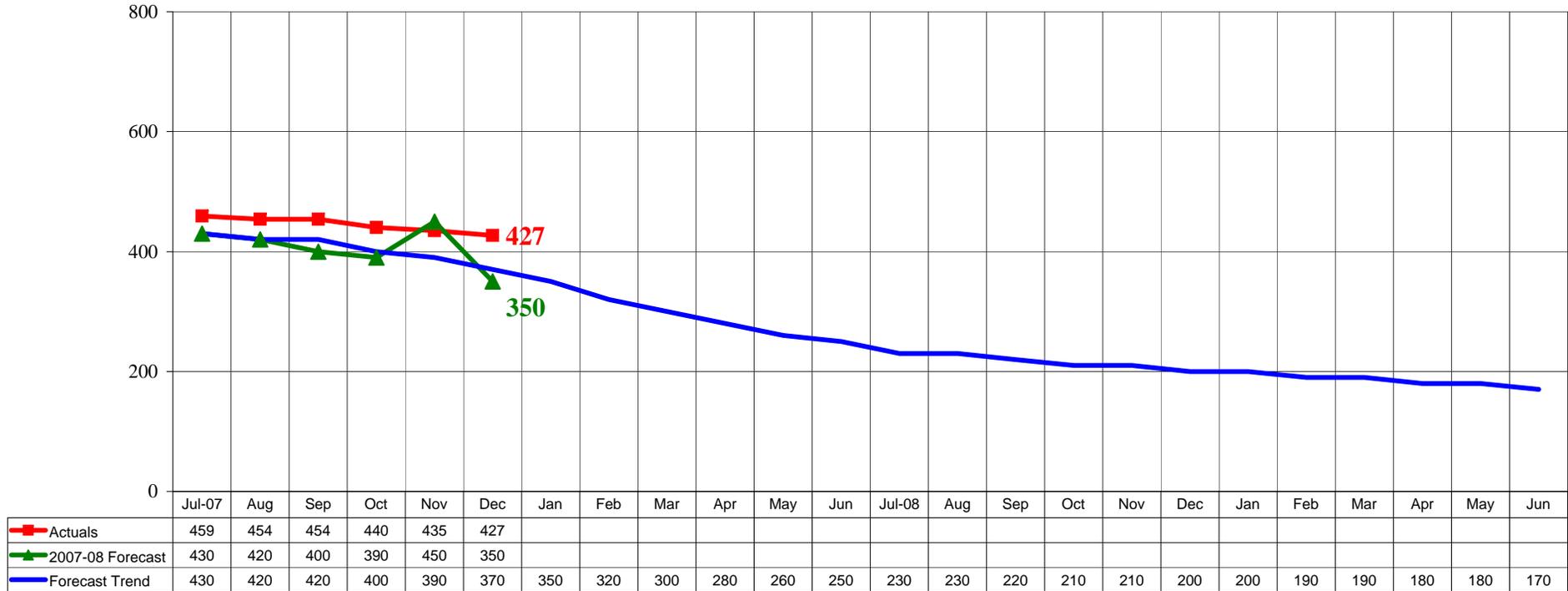
Base FY 2007-08 Assumptions:

- ▶ Based on the 2007-08 Budget Act.
- ▶ Assumes TIF in all years.
- ▶ Transfers of \$602 million to the TCRF, \$176 million to the PTA in FY 2007-08.
- ▶ Transfers of \$308 million to the PTA, \$615 million to the Local in FY 2008-09.

Allocation Assumptions

- ▶ The current 2007-08 Allocation Capacity proposes \$390 million for STIP.

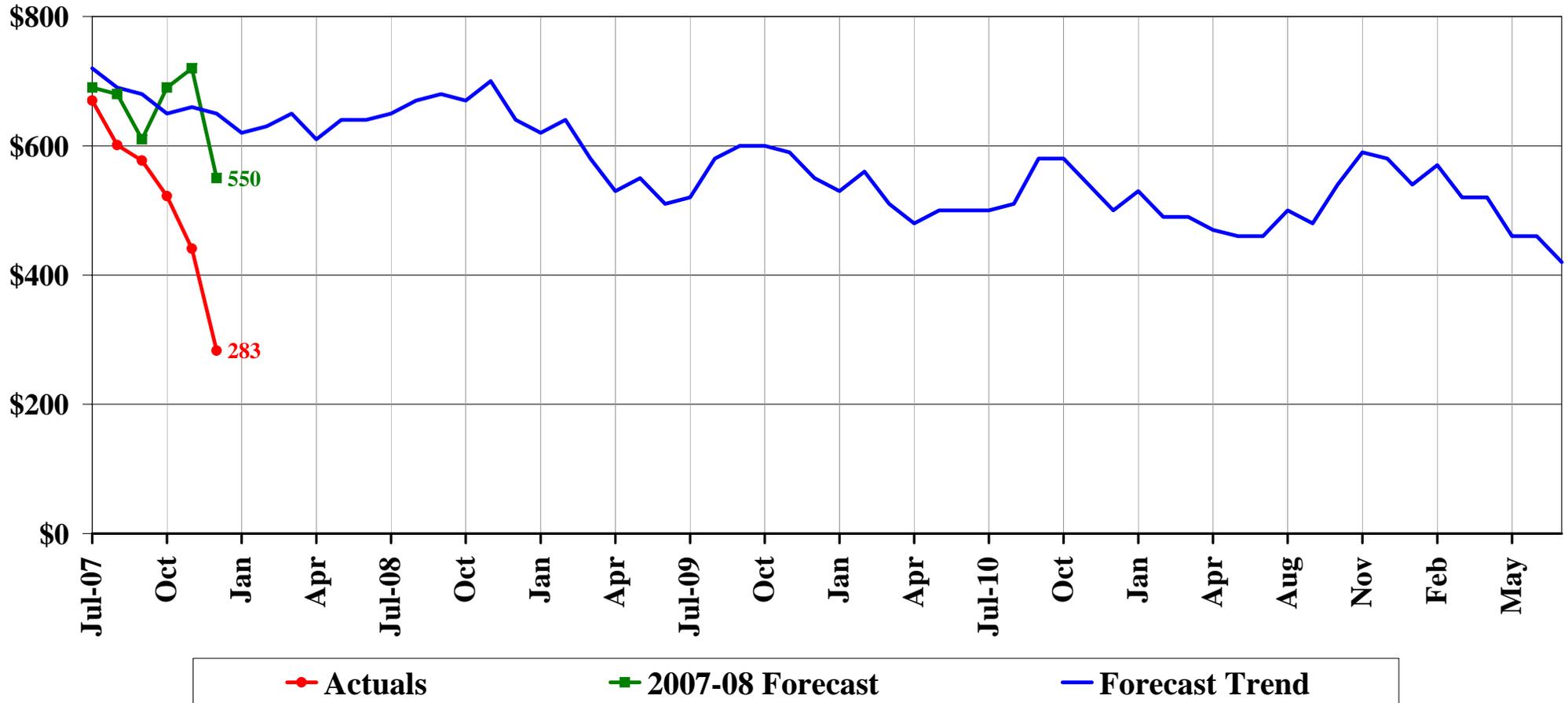
24-Month Transportation Deferred Investment Fund (TDIF) Cash Forecast (\$ millions)



Base FY 2007-08 Forecast Assumptions:

- ▶ 2007-08 Proposition 42 Loan Repayments distributions:
- ▶ \$1 million to PTA and \$82 million to TCRP.

STATE HIGHWAY ACCOUNT FIVE-YEAR CASH FORECAST (\$ millions)



Status of Outstanding Transportation Loans				
(\$ millions)				
FUND	Original Loan Plus Interest as of 2004-05	Loans/Interest Paid-to-Date	Expected 2007-08 Payments	Remaining Balance
Pre-Proposition 42 (Tribal Gaming Revenue):				
State Highway Account (SHA) ¹	\$473	\$241	\$100	\$132
Public Transportation Account (PTA) ²	275	10	0	265
Traffic Congestion Relief Fund (TCRF) ³	482	0	0	482
Locals ⁴	0	0	0	0
Subtotal Pre-Position 42 Tribal Gaming Loans:	\$1,230	\$251	\$100	\$879
Proposition 42:				
Public Transportation Account (PTA)	\$217	\$217	\$0	\$0
Transportation Investment Fund (TIF)	438	438	0	0
Transportation Congestion Relief Fund (TCRF) ⁵	1,067	323	82	662
Locals	438	438	0	0
Subtotal Proposition 42 Loans:	\$2,160	\$1,416	\$82	\$662
Totals:	\$3,390	\$1,667	\$182	\$1,541

¹The SHA is expected to be repaid \$100 million in 2008-09 and approximately \$32 million in 2009-10 depending on SCO interest calculations.

²The PTA repayment is expected to begin in 2012-13 and be completed in 2014-15.

³The TCRF repayment is expected to begin in 2009-10 and be completed in 2016-17.

⁴The 2006-07 Proposition 42 loan repayment of \$1.416 billion repaid the local Pre-Proposition 42 balance that was to be paid from Tribal Gaming bonds.

⁵The remaining amount due to TCRF under Proposition 42 suspension will be repaid in equal annual installments ending in 2015-16.

Pre-Proposition 42 Loans (Tribal Gaming)

The Pre-Proposition 42 loans occurred in 2001-02 when the State was faced with a growing budget deficit and looked to transportation funds to help fill the budget shortfall. The Transportation Refinancing Plan, Assembly Bill (AB) 438 (Chapter 113, Statutes of 2001), authorized a series of loans that included delaying the transfers of gasoline sales tax to transportation for two years (until 2003-04), a TCRF loan to the General Fund, and loans from the SHA and PTA to the TCRF. In 2004-05, the Governor negotiated tribal gaming compacts to repay these loans through bonds, but legal challenges have prevented the bonds from being issued. In 2005-06, the Director of Finance began using the compact revenues to make annual payments towards these loan balances pursuant to Government Code Section 63048. **However, there is no specific repayment plan required by statute, and no deadline for repayment of loans.**

Proposition 42 Loans

In March 2002 Proposition 42 made the transfer of gasoline sales tax to transportation permanent. However, as state budget shortfalls continued, Proposition 42 transfers were partially suspended in 2003-04 and completely suspended in 2004-05, creating the Proposition 42 loan balances. These loans were partially repaid in 2006-07 with a payment of \$1.416 billion, leaving approximately \$744 million due to the TCRF. With the passage of Proposition 1A in 2006, future suspensions of Proposition 42 transfers are limited to only two times during any 10-year period and these loans must be repaid within three years.